STATEMENT OF
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Chairman Spratt, Ranking Member Ryan, and Members of the Committee, I am honored to be here today.

The United States has the world's largest and most capable transportation systems. Those systems have enabled unprecedented growth in domestic and international trade, have brought our diverse States closer together, and have provided a critical foundation for the amazing wealth creation and economic prosperity that have taken place in the U.S. and around the world in the last 60 years.

When I returned to Washington last year, I sought to ensure that the Department was focused on the challenges that were most pressing and the solutions to those challenges that would have the most impact. In my view, those challenges are: 1) reversing the decline in overall transportation systems performance that is increasingly imposing costs on American families and businesses by way of delays, unpredictability, and wasted energy, among other costs, and 2) ensuring a continued reduction in transportation system fatalities and injuries, even as traffic volumes grow, by emphasizing comprehensive, data-driven approaches and new crash prevention technologies. We have made significant strides forward in the past year.

I was excited to receive the opportunity to testify here because I believe this Committee can play a vital role in reforming Federal spending policies and practices to respond to these challenges. I will focus the bulk of my testimony on surface transportation, but the core problems plaguing America's aviation, highway, and public transportation systems are strikingly similar. All are plagued by a Federal tax and spending structure that is increasingly ineffective at targeting resources and addressing declining performance.

This is true for two basic reasons. First, Federal transportation taxes are not direct user charges, and do not reflect the true costs of using transportation facilities, including the costs of congestion. Second, Federal transportation programs are not sufficiently focused on stimulating the type of innovation necessary to lower the costs of transportation.

Relying on an array of taxes on gasoline, diesel, jet fuel, airline tickets, heavy truck sales, and truck tires, as well as general taxpayers, the Federal Government currently makes investments of approximately $61 billion in America's highways, bridges, airports, transit systems, and in our air traffic control system. These taxes are

deposited into dedicated trust funds and then re-allocated based on formulas, special designations and earmarks. Over the last 20 years, we have witnessed substantial increases in Federal transportation spending and simultaneous deterioration in the performance of the systems that are intended to benefit from this spending.

Today's Federal investment strategy for transportation often appears more focused on rewarding status quo constituencies than it does on improving the Nation's transportation infrastructure. Current programs, regulations, and policies discourage the proper pricing of transportation infrastructure, fail to sufficiently reward innovation and technology development, do not prioritize investments based on economic returns, and blur the relative responsibilities of Federal, State, and local authorities and the private sector. And of course, they encourage the 6,000 plus earmarks we witnessed in the 2005 Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).

Because transportation system users do not pay directly for the costs of providing and managing the nation's transportation infrastructure, they have relatively little input into Federal program and policy decisions. Polls confirm that users of our transportation systems are largely unaware of what it costs to provide transportation infrastructure or what they are paying to use it. This contrasts sharply with the structure the country has adopted for our other major network utilities such as telecommunications, electricity, pipelines, and railroads.

For years, the negative consequences of this flawed structure were not particularly important as transportation infrastructure supply greatly exceeded travel demand. Thanks to robust economic and population growth over many decades, however, that era has ended. Transportation policy complacency is no longer acceptable if our transportation systems are to accommodate the type of growth that is projected for our economy.

There is intense focus right now on the sustainability of the Federal trust funds that support this increasingly flawed model. On the highways and transit side, we are currently spending billions of dollars more than we collect in tax revenues. As a result, the Highway Account of the Highway Trust Fund is projected to experience a substantial cash shortfall for the first time in 2009. The Mass Transit Account will go negative in 2011.

This impending shortfall should be viewed as an opportunity, not a crisis. By encouraging a shift away from a tax and spend model to a direct pricing investment model, dramatic transportation system improvements are possible. In fact, it is a rare moment indeed to have the chance to implement major economic policy changes that can benefit individuals, families, corporations, and the environment simultaneously.

In the aftermath of the tragic collapse of the I-35W Bridge in Minneapolis, Minnesota, it is important that I provide an assessment of the overall condition of the Nation's highways and bridges and provide further detail on some of the issues raised above. Recently, several members of Congress have introduced legislation calling for

increased investment in highways and bridges. While I agree with these members of Congress that our financial model needs to be reexamined, I strongly believe that any discussion of the *amount* of our investment would be misguided without a discussion of the *quality* of our investment.

As a preliminary matter, it is important to understand that while we must do a better job of improving the Nation's transportation systems, the Nation's infrastructure is not crumbling when compared to previous periods. The DOT 2006 Conditions and Performance (C&P) Report, based on 2004 data, indicates the physical condition of our transportation infrastructure is good and has been improving. This report describes the current highway, bridge and transit systems and provides an assessment of the condition of these systems as of the relevant reporting year. Highways are assessed to determine what percentage of the highway system provides ride quality that is at least acceptable. Bridges are assessed to determine the percentage of bridges that are structurally deficient and/or functionally obsolete. Transit is assessed to determine the condition of each transit asset on a five-point scale ranging from excellent to poor.

The 2006 C&P Report indicates that the percentage of vehicle miles traveled on pavements with "good" ride quality rose from 39.4 percent in 1997 to 44.2 percent in 2004. Similarly, the percentage of bridges considered to be structurally deficient dropped from 16.0 percent in 1998 to 13.1 percent in 2004. The 2006 C&P Report also indicates that physical conditions for most transit assets have improved.

Despite these increases, the percentage of travel occurring under congested conditions rose from 27.4 percent in 1997 to 31.6 percent in 2004. The average length of congested conditions per day rose from 6.2 hours in 1997 to 6.6 hours in 2004. Since 1982, average rush hour delays in our nation's urban areas have increased from 14 hours to 38 hours. Total hours of delay in those areas have increased from 800 million to 4.2 billion hours. Because the underperformance in the highway sector is fundamental, not incremental, I have come to believe strongly that increases in Federal taxes and spending would likely do little, if anything, to reverse these trends without a more basic change in how we analyze competing spending options and in how we manage existing systems.

A review of the 2006 C&P Report highlights the following numbers. In 2004, capital investments in highways and bridges (across all levels of government) amounted to $70.3 billion. The annual capital investments required from 2005 to 2024 to maintain these highways and bridges at roughly their current condition and performance level would be $78.8 billion and the maximum economically justifiable investment during this period would be $131.7 billion per year.

Although not expressed this way, it is important to differentiate between the costs to maintain the quality of the Nation's infrastructure and the cost to improve the performance of the Nation's infrastructure. In order to ensure that existing infrastructure quality is maintained, DOT estimates that approximately $40 billion a year in properly targeted highway and bridge expenditures would be sufficient. In order to substantially improve existing highways and bridge quality, DOT estimates that approximately $60

billion a year in properly targeted highway and bridge expenditures would be sufficient. These estimates are based on construction costs from 2004. Substantial construction cost escalations since 2004 will probably result in significant increases in these estimates and will be reflected in the next C&P Report.

Because advocates of higher taxes and spending frequently cite the C&P Report incorrectly, it is important to explain its limitations. One of the most important traditional limitations of the C&P Report has been that while it identified the amount of capital investment required to maintain or improve highway and transit systems, it has not directly assessed the impact that alternative financing mechanisms could have on the total amount of investment required.

For example, increased funding for highways from gas taxes and other general revenue sources would have different implications than increased funding for highways from tolls or other direct user charges. While increased funding from taxes does little, if anything, to address congestion specifically, direct road pricing corresponding to the economic cost of congestion would reduce peak traffic volumes and increase net benefits to all users.

To begin to address this limitation, the 2006 C&P Report includes a preliminary analysis of the application of universal congestion pricing to our highways and the effect this would have on the calculation of capital investment needs. Congestion pricing involves charging drivers more to use a facility or system during peak congestion periods. It works by shifting discretionary rush hour highway travel to other modes of transportation or to off-peak periods.

As expected, the preliminary analysis included in the 2006 C&P Report confirmed that universal congestion pricing, by improving the performance of our current highway system, could significantly reduce the level of future highway investment that would be required to maintain or improve the condition of our highways. The 2006 C&P Report suggested that applying congestion tolls to all of the congested roads in the system could reduce the cost to maintain the system by $21.6 billion per year, or 27.5 percent, leaving it at $57.2 billion, which is well below the current level of capital spending.

This preliminary analysis affirms the Department's conviction that the costs of our Nation's transportation systems are intrinsically linked to the types of investments that we make. If we make investments that will increase system performance, such as congestion pricing, we can reduce costs and bring down the amount of investment required to maintain our system by billions of dollars.

As the Committee on the Budget is aware, while cost-benefit analysis should be a minimum condition to investment, it is by no means sufficient to justify additional spending. Cost-beneficial highway projects need to be compared and prioritized with other investment options. A project with a benefit/cost ratio just above one is likely to rank very low when compared to other conceivable investment options. In fact, most

private corporations employ "hurdle rates" that imply benefit/cost ratios far in excess of one.

All levels of government, including the Federal Government, have limited resources to fund programs. Transportation spending needs to compete with health care, the environment, social services, and many other important programs. Moreover, all forms of government spending compete with private sector spending. We should not tax our citizens and spend the proceeds for government purposes – even those whose benefits exceed their costs – if taxpayers have even more compelling needs to spend those funds in the private sector.

In addition, while the models used for the C&P Report assume that projects are prioritized based on their cost-benefit ratios, this assumption is not consistent with actual patterns of project selection and funding distribution that occur in the real world. As noted above, in the real world, major spending decisions often have nothing to do with underlying economics. Real world process and legal limitations also constrain the ability to make cost-beneficial investments. For example, a Federal Environmental Impact Statement currently takes over sixty months to complete, regardless of how cost-beneficial a certain project may be. In fact, many of the urban highway expansion projects that would be embedded in a $131.7 billion national cost-beneficial spending figure would not obtain the political support or environmental approvals needed to move the projects forward.

Another important characteristic of the C&P Report is that while it suggests how much money could be spent cost-beneficially across all levels of government for capital investment in transportation, it does not make any recommendation as to the percentage of that investment that should be provided by the Federal Government. The 2006 C&P Report, in fact, reports that Federal highway capital investment is increasing more rapidly than State and local highway capital investment. Between 1997 and 2004, Federal capital investments in highways rose 52.9 percent, while State and local capital investment increased by only 39.9 percent. The Federal Government's portion of total capital outlay increased from 41.6 percent in 1997 to 43.8 percent in 2004. In 2002, the Federal Government's portion of total capital outlays was 46.1 percent, the highest level since 1986.

This trend was noted by an August 2004 report from the Government Accountability Office (GAO), *Federal Aid Highways: Trends, Effect on State Spending, and Options for Future Program Design* (GAO-04-802). The GAO report noted that while "the Nation's capital investment in its highway system has doubled in the last 20 years, and during that time period as a whole, state and local investment in highways outstripped federal investment in highways," nevertheless, "since the early 1990s, state and local investment in highways has increased at a slower rate than federal investment in highways."

According to the GAO report, from 1991 through 2002, State and local investment increased by 23 percent while Federal investment increased by 47 percent.

The GAO report concluded that "federal-aid highway grants have influenced state and local governments to substitute federal funds for state and local funds that otherwise would have been spent on highways." This substitution limits the effectiveness of Federal aid to achieve important highway program goals, because increases in Federal aid do not translate into increased overall highway capital investment.

One way to improve the emphasis on investment quality and efficient system pricing is to expand the involvement of the private sector in the construction, financing, and operation of our transportation systems. Public-private partnerships (PPPs) for transportation projects reduce their costs, provide incentives for better pricing of transportation assets, accelerate project delivery, reduce public sector risk, and bring increased innovation and competition to the industry. To the extent capital investments in our highways and bridges facilitate PPPs, they are likely to reduce the total amount of investment required to maintain and improve our highways and bridges.

There is no clearer evidence of this failure to prioritize spending than the disturbing evolution of the Federal highway program. This program has seen politically designated projects grow from a handful in the surface transportation bill enacted in the early 1980s to more than 6,000 enacted in SAFETEA-LU. The cost of these earmarks totaled $23 billion – a truly staggering figure.

The real cost of these earmarks is much higher. Looking at a sample of various recent earmarks, we found that the Federal earmark amounts themselves comprised on average only 10% of the total project cost. Because of this, State departments of transportation will typically either delay the earmarked project indefinitely or re-allocate resources from higher priorities to fill the funding gap. In addition, earmarks present administrative burdens for States that must dedicate scarce personnel resources to managing lower priority projects that are subject to earmarking. In short, earmarks ripple through the entire Federal-aid program structure.

In addition to earmarks, there are a number of special interest programs that have been created to provide funding for projects that may or may not be a State and local priority. As a former State DOT director, I have had first-hand experience with the difficulties created when Washington mandates override State priorities. While it is true that not all earmarks or special interest investments are wasteful, it is also true that virtually no comparative economic analysis is conducted to support these spending decisions. No business could survive for any meaningful period of time using a similar investment strategy. Not surprisingly, new economic literature reveals that the returns on our highway investments have plummeted into the low single digits in recent years.

The Department is working with States to encourage them to regularly use benefit-cost analysis (BCA) when making project selection decisions. Currently, approximately 20 States make some use of BCA, while 6 States use the technique regularly. The GAO recently conducted two studies to identify the key processes for surface transportation infrastructure planning and decisionmaking, with a particular

emphasis on the role of economic analysis methods and the factors that affect the use of such methods.

These studies are *Highway and Transit Investments: Options for Improving Information on Projects' Benefits and Costs and Increasing Accountability for Results* (GAO-05-172); and *Surface Transportation: Many Factors Affect Investment Decisions* (GAO-04-744). The former report noted that "the increased use of economic analytical tools, such as benefit-cost analysis, could improve the information available to decision makers and, ultimately, lead to better-informed transportation investment decision making" (GAO-05-172, p. 6).

Among other reasons, GAO cited "political concerns" for why BCA is not more widely used in U.S. public sector surface transportation decisionmaking. GAO observed that projects may be important for a particular interest group or constituency even though they are not efficient from an economic standpoint. At a minimum, BCA would provide additional transparency to decisions that are less cost-beneficial. Ideally, BCA would actually begin to prevent inefficient decisions from being made in the first place.

GAO also noted that BCA results are rarely reviewed in light of actual project outcomes. In other words, not only is BCA underused in the project planning process, it is also rarely used to assess the efficacy of a previous investment. This is in stark contrast to typical capital investment models employed in the private sector. It is important that Congress and the Department work together to establish far more productive means to ensure that scarce resources are flowing to projects that benefit the public the most. BCA is likely to be one of our most effective tools to advance that objective.

Moreover, since Federal transportation funding levels are not linked to specific performance-related goals and outcomes, the public has rightfully lost confidence in the ability of traditional approaches to deliver. The use of performance measures, by helping to identify weaknesses as well as strengths, can improve the transportation project selection process and the delivery of transportation services.

In addition to an insufficient performance and cost-benefit focus, the current gas tax-dependent model does virtually nothing to address directly the growing costs of congestion and system unreliability. Taxes on gasoline, diesel fuel, motor vehicles, tires, property and consumer products – the dominant means of raising revenues for transportation – are levied regardless of when and where a driver uses a highway. This leads to a misperception that highways are "free," which in turns encourages overuse and gridlock at precisely the times we need highways the most. Consistent with the views of almost every expert who has looked at the issue, GAO recently released a report arguing that gas taxes are fundamentally incapable of balancing supply and demand for roads during heavily congested periods.

The data simply do not lie in this case. Relying extensively on gas and motor vehicle taxes, virtually every metropolitan area in the U.S. has witnessed an explosion in

traffic delays over the last 25 years. Meanwhile, in recent years, the increase in surface transportation funding has significantly outpaced the overall growth of non-defense, non-homeland security Federal discretionary spending. And, since 1991, capital outlays at all levels of government have nearly doubled. Economists have long understood the connection between payment mechanisms and system performance, but technology and administrative complexities limited the ability of policymakers to explore alternatives. Today, those barriers no longer exist.

This is one of the main reasons that our Department has been strongly supporting States that wish to experiment with electronic tolling and congestion pricing. Nationwide, the majority of projects in excess of $500 million currently in development are projected to be financed at least in part with electronic tolls. In the middle of August, we announced Federal grants of more than $800 million to some of the country's largest cities to explore fully the concept of electronic tolling combined with expanded commuter transit options and deployment of new operational technologies. Nationwide, the trends are inescapable and encouraging.

We believe that, to the extent feasible, users should finance the costs of building, maintaining, and operating our country's highways and bridges. What is increasingly clear is that directly charging for road use (similar to the way we charge for electricity, water, and telecommunications services) holds enormous promise to generate large amounts of revenues for re-investment and to cut congestion. Equally important, however, prices send better signals to State DOTs, planners, and system users as to where capacity expansion is most critical. Prices are not simply about demand management; they are about adding the right supply.

The current financial model is also contradictory to other critical national policy objectives. As a country, we are rightly exploring every conceivable mechanism to increase energy independence, promote fuel economy in automobiles, stimulate alternative fuel development, and reduce emissions. President Bush has urged Congress to pass laws that will substantially expand our alternative energy capabilities and increase Corporate Average Fuel Economy requirements for automobiles and light trucks. The Federal Government should be strongly encouraging States to explore alternatives to petroleum-based taxes and not to expand the country's reliance upon them.

Before reaching the conclusion that additional Federal spending and taxes is the right path, we should critically examine how we establish spending priorities today. We need a data-driven, performance-based approach to building and maintaining our Nation's infrastructure assets – a process where we are making decisions based on safety first, economics second, and politics not at all. And we need an underlying framework that is responsive to today's and tomorrow's challenges, not those of the 1950s.

I look forward to working with you and would be pleased to answer any questions you may have.